Small Cap Opportunity Fund

Market Overview

The first quarter ushered in a change of US leadership and with it a change in direction for equity markets.

Though 2025 started off on a broadly positive note for risk assets, sour sentiment took hold of US markets in mid-February as concerns mounted about the impacts of the Trump administration's policy priorities, tariffs and indiscriminate cost cutting, most notably. The Russell 2000 Index fell 9.5% in the first quarter, though value outperformed growth by more than 300 basis points. Small caps continued to lag large cap stocks, as the S&P 500 Index lost 4.3% during the period.

That said, the challenges facing markets in the first quarter would prove quite pedestrian compared with what the second quarter had in store. The April 2 unveiling of Trump's wide-ranging tariff package—a baseline 10% levy on imports globally, with steeper rates assessed on a country-by-country basis—unleashed a rout across risk assets and quickly sent the Russell 2000 into a bear market.[1]

The Bloom Is off the Rose

Trump's electoral victory in November 2024 initially fueled another leg higher in equities, as markets hoped the campaign trail promises of pro-growth deregulation and stimulative tax policy would bolster earnings for a range of US companies amid steady economic growth and cooling inflation. Given their domestic orientation, small cap stocks were expected to be particularly buoyed by such dynamics, which would have been a welcome change after a long period of underperformance relative to larger names. This optimism—and the brief outperformance of the Russell 2000 in the initial aftermath of the election—began to fade well before Trump took office in late January, however, and the unraveling of the so-called "Trump trade" was underway in earnest by mid-February. It wasn't long before domestic stock markets had given back all of their postelection day gains, and then some.[2]

While hard economic data released in first quarter 2025 continued to show persistent economic growth alongside stubbornly above-target inflation, soft indicators appeared to capture the early negative impacts of the new administration's policy erraticism and "chainsaw" approach to federal cost cutting. Consumers, for one, have grown decidedly more cautious in the face of the prevailing uncertainty. Consumer confidence as measured by The Conference Board has declined for four consecutive months, and its expectations index—which captures consumers' short-term outlook for income, business and labor-market conditions—fell to a 12-year low in March and sits well below the threshold that usually signals a coming recession.[3] A survey from the University of Michigan indicated similarly crumbling sentiment,[4] while the New York Fed's latest consumer data revealed notable pessimism across prospects for household finances, employment, loan delinquencies and credit access.[5]

Business attitudes have also darkened. On Main Street USA, the NFIB Small Business Optimism Index depicted waning confidence in the economy and high and rising uncertainty in what the future holds.[6] Globally, business confidence in the year ahead approached post-Covid-19 lows in March, even as Purchasing Managers' Index (PMI) values showed continued expansion in both the manufacturing and service sectors.[7] Perhaps most tellingly, tariffs were mentioned more than 800 times in investor events or conference calls globally during the first quarter, the highest rate in 15 years.[8] With this level of concern evident even before the announcement of Trump's disruptive tariff plan, it seems likely the topic will dominate earnings calls in the weeks ahead.

Meanwhile, a "Fed put"—that is, central bank policy action intended to bolster cratering financial markets—may not be forthcoming, despite the selloff in markets and increasing real risks to economic activity. The Federal Reserve finds itself in a tough spot; with tariffs providing both an inflationary impulse and weighing on economic activity simultaneously, the appropriate policy response is unclear. Per Fed Chair Powell, "We're going to need to wait and see how this plays out."[9]

Leaning on Experience in Challenging Times

As the first quarter drew to a close, our view was that the primary near-term risk for small cap prices was failing to meet lofty expectations. Decent economic growth and manageable inflation in the US was well supported by low energy prices, strong employment and an undersupply in housing. Smaller companies were broadly expected to benefit; the consensus estimate for 2025 Russell 2000 earnings growth, for example, stood at nearly 50% as of January 1.[10] Of course,

1. Source: FactSet; data as of March 31, 2025.
2. Source: FactSet; data as of March 31, 2025.
3. Source: The Conference Board; data as of March 25, 2025.
4. Source: University of Michigan; data as of March 28, 2025.
5. Source: Federal Reserve Bank of New York; data as of March 10, 2025.
6. Source: NFIB; data as of March 11, 2025.
7. Source: S&P Global; data as of April 4, 2025.
8. Source: Reuters, S&P Global; data as of April 3, 2025.
9. Source: Reuters; data as of April 7, 2025.
10. Source: LSEG I/B/E/S; data as of April 4, 2025.

Trump's tariff plan upended any preconceived notions and sparked intense selling across the small and smid cap universe in the early days of the second quarter.

We have responded to the current market dislocation by doing what we have done consistently during previous dislocations, like the dot-com crash in 2002, the global financial crisis in 2008, the foreign-exchange crisis in 2011, the taper tantrum in 2018 and the onset of Covid-19 in 2020. That is, we first identify holdings that may be exposed to the permanent loss of capital and move quickly to reduce or completely eliminate those exposures. We then use the proceeds to patiently purchase stocks—establishing new exposures and adding to existing holdings—that we believe offer the greatest upside potential once the market recovers, even if they are currently subject to selling pressure. Portfolio performance may be challenged in the short term as a result, but we believe the consistent execution of our investment philosophy should generate risk-adjusted returns over the long term.

Current market conditions are unpredictable at best, and we accept that we are at the mercy of dynamics that we can neither predict nor discount in our models. That said, we are not strangers to turbulent markets. We will leverage our experience managing through previous periods of extreme volatility and poor liquidity—such as 2002, 2008, 2011, 2018 and 2020—to ensure our portfolio is both cheaper than the market and well positioned for upside once it recovers.

Portfolio Review

Small Cap Opportunity Fund A Shares (without sales charge*) posted a return of -9.59% in first quarter 2025. Utilities was the only contributor among equity sectors; information technology, consumer discretionary and industrials were the largest detractors. The Fund underperformed the Russell 2000 Value Index in the period.

Leading contributors in the First Eagle Small Cap Opportunity Fund this quarter included H&E Equipment Services, Inc., Intrepid Potash, Inc., Astronics Corporation, Brookdale Senior Living Inc. and EverQuote, Inc. Class A.

H&E Equipment Services is an integrated equipment services company that rents equipment, sells new and used equipment and parts, and provides repair and maintenance services. Shares of H&E were bolstered by a bidding war for the company by two other equipment-rental providers. H&E ultimately agreed to be acquired by Herc Holdings, one of the largest equipment rental companies in North America, at a significant premium in a stock-and-cash transition following an initial bid from United Rentals. This transaction is expected to close mid-2025.

Intrepid Potash is the only US producer of potash, with assets in Utah and New Mexico. The company reported production growth and sales volume improvement for its most recent quarter. Higher potash prices also were a tailwind during the quarter, as were the appointment of a new chief executive officer in December and the changes to the company's corporate governance following the involvement of an activist investor. We continue to like the company's unique, long-lived assets and its focus on increasing production capacity.

Astronics provides lighting and electronics for the interior of military and commercial aircraft. The company reported better-than-expected results for its most recent quarter, driven by strong demand from the commercial aerospace market. A patent dispute between Astronics and Lufthansa moved toward reaching a settlement during the quarter, which removed an overhang on the stock.

Brookdale Senior Living operates and manages 647 senior living communities in 41 US states. The company has made significant progress in recovering from significant pandemic-related disruptions, with improved occupancy rates and revenue per available unit. In late 2024, the company announced that it had amended its master lease arrangement with real estate investment trust Ventas; Brookdale will continue to lease 65 high-performing communities while relinquishing 55 and expects improvements in its cash flow as a result. We believe the company is well positioned to generate ongoing improvements in cash flow and earnings growth as it increases its owned real estate portfolio.

EverQuote operates online platforms to connect customers with auto insurance carriers and agents. The company reported better-than-expected results for its most recent quarter, driven by a recovery in its primary auto insurance category, growth in home and renters' insurance, operational efficiencies and cost management. While a rise in claims, inflation and inadequate premiums had weighed on auto insurers advertising budgets for much of 2021–23, the recovery that emerged in 2024 should continue to support digital advertising spend to the potential benefit of EverQuote.

The leading detractors in the quarter were Ultra Clean Holdings, Inc., Graham Corporation, Ameresco, Inc. Class A, International Money Express, Inc. and Beazer Homes USA, Inc.

Ultra Clean Holdings develops and supplies components, parts and subsystems for ultra-high-purity cleaning and analytical services for the semiconductor industry. Shares traded lower during the quarter on tariff concerns and as management acknowledged weak demand and inventory absorption in China, reversing previous strong guidance. We think the company is well positioned to benefit from the longer-term growth of advanced nodes and improved operational efficiencies.

Graham manufactures mission-critical fluid, power, heat transfer and vacuum technologies for the defense, space, energy and process industries. In addition to a CEO transition announced during the quarter, concerns over exposure to long-term government contracts—which provided stability in other political climates—weighed on shares. We believe Graham's underlying business remains strong despite the pullback in the stock price during the quarter and are upbeat about its ability to benefit from its late-2023 acquisition of P3 Technologies. We also like Graham's disciplined approach to balancing growth initiatives with returning cash to shareholders through stock buybacks.

* Performance for Class A shares without the effect of sales charges and assumes all distributions have been reinvested, and if a sales charge was included values would be lower.

Ameresco is a clean-tech integrator and renewable energy company leveraging smart technology to help governments, and commercial and industrial clients decarbonize and build energy resilience throughout North America and Europe. Fears of contract cancellations due to potential federal budget cuts and less environmentally friendly policies under the Trump administration continued to pressure shares. With sophisticated solutions, innovative technologies and strong customer relationships, Ameresco appears well positioned for secular success.

International Money Express, a payment remittance company, processes money transfers between the US and Latin America/Caribbean through both physical and electronic delivery. Investors were disappointed by the recent suspension of the company's assessment of strategic alternatives; this review of opportunities to maximize shareholder value may have resulted in the sale of the business at a premium to the current market price. The company is well positioned to return capital to shareholders even as it continues to digitize operations for competitive positioning and margin expansion.

Beazer Homes is one of the largest homebuilders in the US, serving entry-level buyers primarily in the West and Southeast. Shares traded down during the quarter on weaker order volumes and margin pressure as rate promotions coincided with still-high interest rates. We remain constructive on the shares; secular prospects for homebuilders remain strong given the severe undersupply of homes in the US, and Beazer is well positioned to grow earnings as it increases penetration.

We appreciate your confidence and thank you for your support.

Sincerely,

First Eagle Investments

Trailing Returns

Data as of 31-Mar-2025

	Calendar YTD	1 Year	3 Years	Inception	Gross Expense Ratio[1]	Net Expense Ratio	Fund Inception Date
First Eagle Small Cap Opportunity Fund Class A (FESAX) w/o load	-9.59%	-8.65%	-1.11%	-1.71%	1.28%	1.26%	Jul 1, 2021
First Eagle Small Cap Opportunity Fund Class A (FESAX) w/ load	-14.09%	-13.19%	-2.80%	-3.04%	1.28%	1.26%	Jul 1, 2021
First Eagle Small Cap Opportunity Fund Class I (FESCX)	-9.57%	-8.43%	-0.90%	-0.65%	1.07%	1.01%	Apr 27, 2021
First Eagle Small Cap Opportunity Fund Class R6 (FESRX)	-9.56%	-8.42%	-0.86%	-1.46%	1.01%	1.01%	Jul 1, 2021
Russell 2000 Value Index[2]	-7.74%	-3.12%	0.05%	0.19%			
Russell 2000 Index	-9.48%	-4.01%	0.52%	-1.97%			

The performance data quoted herein represents past performance and does not guarantee future results. Market volatility can dramatically impact the fund's short term performance. Current performance may be lower or higher than figures shown. The investment return and principal value will fluctuate so that an investor's shares, when redeemed may be worth more or less than their original cost. Past performance data through the most recent month end is available at www.firsteagle.com or by calling 800-334-2143. "With load" performance for Class A Shares gives effect to the deduction of the maximum sales charge of 5.00%. Class I Shares require $1mm minimum investment, and are offered without sales charge. Class R6 is offered without sales charge.

First Eagle Investment Management, LLC (the "Adviser") has contractually agreed to waive and/or reimburse certain fees and expenses of Classes A, I and R6 so that the total annual operating expenses (excluding interest, taxes, brokerage commissions, acquired fund fees and expenses, dividend and interest expenses relating to short sales, and extraordinary expenses, if any) ("annual operating expenses") of each class are limited to 1.25%, 1.00% and 1.00% of average net assets, respectively. Each of these undertakings lasts until 28-Feb-2026 and may not be terminated during its term without the consent of the Board of Trustees. The Fund has agreed that each of Classes A, I and R6 will repay the Adviser for fees and expenses waived or reimbursed for the class provided that repayment does not cause annual operating expenses (after the repayment is taken into account) to exceed the lesser of: (1) 1.25%, 1.00% and 1.00% of the class' average net assets, respectively; or (2) if applicable, the then-current expense limitations. Any such repayment must be made within three years after the year in which the Adviser incurred the expense.

2. Primary index.

Investments are not FDIC insured or bank guaranteed and may lose value.

The average annual returns for Class A Shares "with sales charge" or "w/load" of the First Eagle Small Cap Opportunity Fund gives effect to the deduction of the maximum sales charge of 5.00%.

Class I Shares require $1MM minimum investment and are offered without sales charge. There is no minimum subsequent investment amount for Class I Shares.

Class R6 Shares are offered without sales charge.

The annual expense ratio is based on expenses incurred by the Fund, as stated in the most recent prospectus.

Risks

All investments involve the risk of loss of principal.

Diversification does not guarantee investment returns and does not eliminate the risk of loss.

There are risks associated with investing in **foreign investments** (including depositary receipts). Foreign investments, which can be denominated in foreign currencies, are susceptible to less politically, economically and socially stable environments, fluctuations in the value of foreign currency and exchange rates, and adverse changes to government regulations The **value and liquidity of portfolio holdings may fluctuate** in response to events specific to the companies or markets, as well as economic, political or social events in the United States or abroad. During periods of market volatility, the value of individual securities and other investments at times may decline significantly and rapidly. The securities of small and micro-size companies can be more volatile in price than those of larger companies and may be more difficult or expensive to trade. A principal risk of investing in **value stocks** is that the price of the security may not approach its anticipated value or may decline in value. "Value" investments, as a category, or entire industries or sectors associated with such investments, may lose favor with investors as compared to those that are more "growth" oriented. Strategies whose investments are **concentrated in a specific industry or sector** may be subject to a higher degree of risk than funds whose investments are diversified and may not be suitable for all investors.

Definitions

Federal funds rate is the interest rate at which depository institutions (banks and credit unions) lend reserve balances to other depository institutions overnight on an uncollateralized basis. **Bear market** is generally defined as a period during a securities market index falls by 20% of more.

Russell 2000® Value Index (Gross/Total) measures the performance of the small cap value segment of the US equity universe. It includes those Russell 2000 companies with relatively lower price-to-book ratios, lower I/B/E/S forecast medium term (two-year) growth and lower sales per share historical growth (five-year). A total-return index tracks price changes and reinvestment of distribution income. **Russell 2000® Index** (Gross/Total) measures the performance of the small-cap segment of the US equity universe. It includes approximately 2,000 of the smallest securities based on a combination of their market cap and current index membership. A total-return index tracks price changes and reinvestment of distribution income. **S&P 500 Index** (Gross/Total) measures the performance of 500 of the top companies in the leading industries of the US economy and is widely recognized as a proxy for the US market as a whole. A total-return index tracks price changes and reinvestment of distribution income. A **purchasing managers' index (PMI)** measures the growth or expansion of certain segments of the economy. **NFIB Small Business Optimism Index** is a widely recognized economic indicator measuring the sentiment and outlook of US small business owners across a variety of areas critical to their operations.

Indices are unmanaged and do not incur management fees or other operating expenses. One cannot invest directly in an index.

The holdings mentioned herein represent the following total assets of the First Eagle Small Cap Opportunity Fund as of 31-Mar-2025: H&E Equipment Services, Inc. 0.00%; Intrepid Potash, Inc. 0.95%; Astronics Corporation 0.37%; Brookdale Senior Living Inc. 0.68%; EverQuote, Inc. Class A 0.43%; Ultra Clean Holdings, Inc. 0.48%; Graham Corporation 0.58%; Ameresco, Inc. Class A 0.37%; International Money Express, Inc. 0.34%; Beazer Homes USA, Inc. 0.73%.

The commentary represents the opinion of the Small Cap team as of the date noted. The opinions expressed are not necessarily those of the firm. These materials are provided for informational purposes only. These opinions are not intended to be a forecast of future events, a guarantee of future results or investment advice. Any statistics contained herein have been obtained from sources believed to be reliable, but the accuracy of this information cannot be guaranteed. The views expressed herein may change at any time subsequent to the date of issue hereof. The information provided is not to be construed as a recommendation or an offer to buy, hold or sell or the solicitation of an offer to buy or sell any fund or security.

The Fund's portfolio is actively managed and holdings can change at any time. Current and future portfolio holdings are subject to risk.

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